



**FEDERAL RETIREMENT THRIFT INVESTMENT BOARD**

**5 CFR Part 1655**

**RIN 322-AA01**

**Curing Missed Loan Payments**

**AGENCY:** Federal Retirement Thrift Investment Board.

**ACTION:** Final rule.

**SUMMARY:** The Federal Retirement Thrift Investment Board (FRTIB) amends its regulations regarding the methods available to participants to cure missed loan payments. This final rule will permit resumed payroll deductions for TSP loans to automatically apply to missed payments, giving participants more flexibility to cure missed payments.

**DATES:** The effective date is [INSERT DATE OF PUBLICATION]

**FOR FURTHER INFORMATION CONTACT:** *For press inquiries:* James Kaplan at (202) 809-2625. *For information about this final rule:* Elizabeth Harris at (202) 942-1600.

**SUPPLEMENTARY INFORMATION:** The FRTIB administers the TSP, which was established by the Federal Employees' Retirement System Act of 1986 (FERSA), Public Law 99-335, 100 Stat. 514. The TSP is a retirement savings plan for Federal civilian employees and members of the uniformed services. It is similar to cash or deferred arrangements established for private-sector employees under section 401(k) of the Internal Revenue Code (26 U.S.C. 401(k)). The provisions of FERSA that govern the TSP are codified, as amended, largely at 5 U.S.C. 8351 and 8401-80.

I. Background

When a TSP participant who is employed by the federal government has an outstanding loan from their TSP account, their loan payments are automatically made via payroll deductions. Loan payments might be

missed if payroll deductions are interrupted due to a temporary change in payroll status, a transfer to another federal agency with a different pay schedule, or other circumstances. When that happens, the participant must make up the missed payment within a certain period of time called a cure period.

In the past, if a participant's payroll deductions were interrupted, they were required to make up the missed payment via personal check, money order, or direct debit. When their payroll deductions restarted, those resumed payments only counted for that current month, not for the month that was missed. For example, if a participant missed a June payment, but payroll deductions resumed in July, the July deduction would only cover July's payment. The participant would still owe June's payment, and if they did not make a payment via personal check, money order, or direct debit by the end of the cure period, the IRS would treat the loan as in default.

This final rule amends Title 5, Part 1655 of the Code of Federal Regulations to make the loan payment process more flexible. Now, when payroll deductions resume after an interruption, the first deduction will apply to the missed payment. The next regularly scheduled deduction will then be considered as the next required payment. In the example above, the July deduction would apply to June payment, the August deduction would apply to the July payment, and so on. This effectively shifts the schedule forward by one month on a rolling basis and gives the participant extra time to make up any missed payments before a default occurs. This cycle continues, with each new payment covering the prior missed one, so the participant remains one payment behind. This cycle continues until (1) a one-time make up payment is made via personal check, money order, or direct debit, (2) a default is triggered because the loan has reached its maximum term,

or (3) a default is triggered because additional payments are missed. This gives the participant flexibility on when to make up a missed payment, but it does not extend the term of loan.

## II. Response to Public Comments

On May 12, 2025, the FRTIB published a proposed rule to amend its regulations (90 FR 20132, May 12, 2025). We received five comments. One comment was outside the scope of this rule, three comments supported the proposed rule, and one comment identified minor grammatical changes intended to improve the clarity of the rule. We have adopted the recommended grammatical changes.

In addition to supporting the proposed rule, one commentor recommended clarifying that the TSP's cure period aligns with the maximum timeframe allowable under the Internal Revenue Code. In response, we have amended the definition of "cure period" in section 1655.1. The term "cure period" is now defined by reference to the maximum timeframe allowable under Treasury Regulation § 1.72(p)-1

For the reasons described above, the FRTIB is adopting the proposed rule as final, without substantive change. The final rule differs from the proposed rule only in minor edits intended to improve clarity.

### **Regulatory Flexibility Act**

This regulation will not have a significant economic impact on a substantial number of small entities. This regulation will affect Federal employees and members of the uniformed services who participate in the Thrift Savings Plan, which is a Federal defined contribution retirement savings plan created under the Federal Employees' Retirement System Act of 1986 (FERSA), Public Law 99-335, 100 Stat. 514, and which is administered by the FRTIB.

### **Paperwork Reduction Act**

This final regulation does not require additional reporting under the criteria of the Paperwork Reduction Act.

**Unfunded Mandates Reform Act of 1995**

Pursuant to the Unfunded Mandates Reform Act of 1995, 2 U.S.C. 602, 632, 653, and 1501-1571, the effects of this regulation on State, local, and Tribal governments and the private sector have been assessed. This regulation will not compel the expenditure in any one year of \$100 million or more by State, local, and Tribal governments, in the aggregate, or by the private sector. Therefore, a statement under 2 U.S.C. 1532 is not required.

**Submission to Congress and the General Accountability Office**

Pursuant to 5 U.S.C. 801(a)(1)(A), the FRTIB submitted a report containing this rule and other required information to the U.S. Senate, the U.S. House of Representatives, and the Government Accountability Office before publication of this rule in the **Federal Register**. This rule is not a major rule as defined at 5 U.S.C. 804(2).

**List of Subjects in 5 CFR Part 1655**

Credit, Government employees, Pensions, Retirement.

**Ravindra Deo,**

Executive Director,

Federal Retirement Thrift Investment Board.

For the reasons stated in the preamble, the FRTIB amends 5 CFR Part 1655 as follows:

**PART 1655 - LOAN PROGRAM**

1. The authority citation for part 1655 continues to read as follows:

**Authority:** 5 U.S.C. 8432d, 8433(g), 8439(a)(3) and 8474.

2. Amend § 1655.1, in paragraph (b), by revising the definition of "Cure period" as follows:

**§ 1655.1 Definitions.**

\* \* \* \* \*

(b)\*\*\*

*Cure period* means the maximum period permitted under 26 CFR 1.72(p)-1 during which a missed loan payment may be made to prevent the loan from being declared a deemed distribution or loan offset.

\* \* \* \* \*

3. Amend § 1655.14 by revising paragraph (e) and the last sentence of paragraph (g) to read as follows:

**§ 1655.14 Loan payments.**

\* \* \* \* \*

(e) *Missed payment.* In the case of a participant who has not separated from Government service, if a payment is not made when due, the TSP record keeper will notify the participant of the missed payment.

(1) *Making up the missed payment.* The participant may make up the missed payment using one of the following methods:

- (i) A personal check,
- (ii) Guaranteed funds, or
- (iii) Direct debit.

(2) *Deemed distribution.* If the participant has not made a payment in accordance with paragraph (e) (1) of this section and has not resumed payroll deductions by the end of the cure period described in § 1655.1, the TSP record keeper will declare the loan to be a deemed distribution in accordance with § 1655.15(a).

(3) *Resuming payroll deductions.* When payroll deductions resume, the first deduction shall be applied to the earliest missed payment.

Each subsequent regularly scheduled deduction shall be applied to the next missed payment. This process shall continue on a rolling basis, such that the participant remains behind in payments until:

(i) A make up payment is submitted for each missed payment in accordance with paragraph (e) (1) of this section;

(ii) The loan reaches its maximum term and a deemed distribution of the remaining missed payment(s) is declared under § 1655.15(a); or

(iii) Additional missed payments trigger a deemed distribution under § 1655.15(a).

\* \* \* \* \*

(g)\*\*\* If the participant does not make up all missed payments by the end of the cure period described in § 1655.1, the TSP record keeper will declare the outstanding loan balance and accrued interest to be a loan offset in accordance with § 1655.15(b).

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